AR49

1964 annual report

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SCURRY • RAINBOW OIL LIMITED

THE COVER

Drilling rig on location during production test of Mobil-Scurry-Pembina River A6-15 gas well, located in the Pembina River area of Alberta. (Photo in 1962 by D. H. Logan, Company Production Manager).

SCURRY – RAINBOW OIL LIMITED

539 EIGHTH AVENUE S.W., CALGARY, ALBERTA

INCORPORATED UNDER THE LAWS OF THE PROVINCE OF ALBERTA
FEBRUARY 5, 1954

BOARD OF DIRECTORS

JOHN ELLIS
JOHN F. LANGSTON
E. GEORGE MESCHI
JOHN SCRIMGEOUR
PAUL S. KERR
PETER MACKENZIE
LAWRENCE C. MORRISROE
FRANK E. TAPLIN, M.B.E.

EXECUTIVE OFFICERS

F. E. TAPLIN, M.B.E.
Chairman of the Board

E. G. MESCHI
President

L. C. MORRISROE
Executive Vice-President

J. F. LANGSTON, P.ENG.
Vice-President

P. ABT
Assistant Vice-President

E. H. CHARKO, C.A.
Treasurer & Assistant Secretary

M. E. JONES, Q.C.
Secretary

REGISTRAR & TRANSFER AGENTS

GUARANTY TRUST COMPANY OF CANADA
Calgary, Alberta — Toronto, Ontario

THE CANADIAN BANK OF COMMERCE TRUST COMPANY
20 Exchange Place, New York, N.Y.

STOCK EXCHANGES

AMERICAN STOCK EXCHANGE

TORONTO STOCK EXCHANGE

AUDITORS

PRICE WATERHOUSE & CO.
Calgary, Alberta

All references to "Scurry-Rainbow" and "the Company" in this report, except where the context otherwise indicates, refer to Scurry-Rainbow Oil Limited and its subsidiary companies.

ANNUAL MEETING

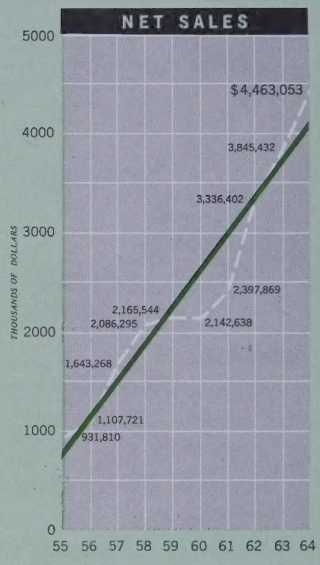
The 1965 annual meeting of shareholders will be held Saturday, February 27, at 10:00 a.m., at the Head Office of the Company, 539 Eighth Avenue S.W., Calgary, Alberta, Canada. A formal notice of this meeting, together with proxy statement and form of proxy, is being mailed with this report. All shareholders who are unable to attend the meeting are urged to sign and return their proxies as soon as possible.

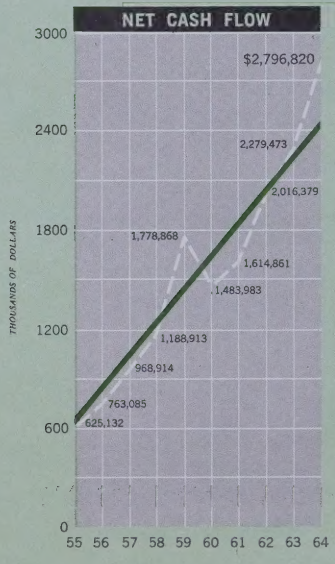
THE REPORT IN BRIEF

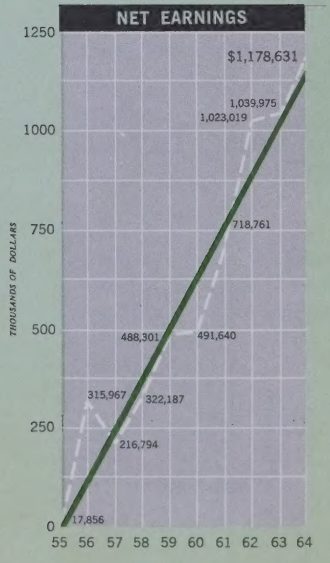
	1964	1963
OPERATIONS FOR THE YEAR		
PRODUCTION		
Crude oil — net barrels per day	4,460	4,115
Natural gas — net mcf per day	6,080	2,880
FINANCIAL		
Gross revenue	$ 5,019,537	$ 3,992,517
Cash flow from operations	2,796,820	2,279,473
per share	1.41	1.19
Net profit after all charges	1,178,631	1,039,975
per share	.60	.54
Acquisition of property and equipment	3,048,402	713,266
Exploration and development	$ 1,750,763	$ 1,606,945
WELLS DRILLED ON COMPANY ACREAGE		
Successful oil and gas wells	59	53
Wells dry and abandoned	56	44
YEAR-END POSITION		
FINANCIAL		
Funds on hand	$ 2,292,960	$ 3,430,607
Long term debt due within one year	1,515,000	2,597,778
Working capital	777,960	832,829
Total long term debt	$12,707,500	$11,700,217
Shares outstanding	1,977,183	1,909,201
LAND HOLDINGS		
Total gross acreage	11,569,211	6,668,916
Net working interest acreage	2,398,635	1,106,932
Net mineral acreage	1,343,289	1,330,231
Net royalty interest acreage	190,151	368,341
OIL WELLS		
Total gross wells	890	845
Net working interest wells	124.31	108.89
Net royalty interest wells	183.74	174.11
GAS WELLS		
Total gross wells	74	72
Net working interest wells	10.18	10.30
Net royalty interest wells	2.42	3.44

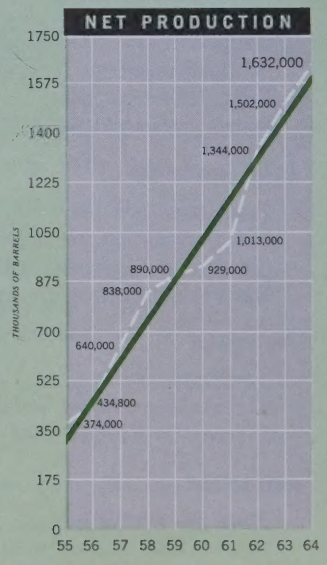
SCURRY-RAINBOW OIL LIMITED
GROWTH TREND
1955-1964

ACTUAL
TREND LINE









To the Shareholders

1964 was again a year of outstanding achievement for Scurry-Rainbow. The continuous growth pattern of the Company for the past number of years has been maintained and new records have been established in production, sales, cash flow and earnings. The progress of the Company during 1964 is statistically summarized on page 1 of this report and the growth performance of the Company for the last ten years is graphically illustrated on page 2 of this report.

Substantial gains were realized in both earnings and cash flow in 1964. Net earnings after all charges were $1,179,000 or 60¢ per share, an increase of 13% over the fiscal year 1963. Gross revenue increased 26% to $5,020,000 resulting in a net cash flow of $2,797,000 or $1.41 per share, an increase of 23% over the previous year. During 1964 capital expenditures for finding and developing reserves totalled $4,799,000 which is more than twice the amount of $2,320,000 spent for similar purposes in the previous year. The acquisition of additional land primarily in the Peejay-Nancy Area of British Columbia and in the Wapiti, Smoky and Cutbank River Areas of Alberta accounts for this substantial increase in capital expenditures. The total of $4,799,000 expended in 1964 consists of $2,192,000 for acquisition of land, $1,224,000 for exploratory and development drilling, $856,000 for plant and well equipment, $137,000 for exploratory surveys and $390,000 for rentals and other carrying charges on non-producing properties.

Net production of crude oil averaged 4,460 barrels per day, an increase of 8% over 1963 and net production of natural gas averaged 6.1 million cubic feet per day, an increase of 110% over the previous year. During 1964 net oil production totalled 1,632,000 barrels and net gas production totalled 2,226 million cubic feet. As a result of new discoveries during the latter part of the fiscal year and further development since the year-end, the Company's net production is presently averaging over 5,000 barrels per day.

In March 1964 Scurry-Rainbow arranged new long term financing which made available to the Company a total of 15 million dollars, repayable over 10 years with interest at the prime commercial rate. Total loans to September 30, 1964 under this arrangement amounted to $13,500,000 of which $9,685,350 was used to retire outstanding bank loans maturing within 4 years. By substantially reducing the installments previously required for the redemption of long term debt, the new financing will provide more funds to the Company for future exploration and development programs.

The major land acquisitions during the year consisted of a 50% working interest in three drilling reservations in the Wapiti, Smoky and Cutbank River Areas of Northwestern Alberta (see map page 8), a 100% working interest in four Petroleum and Natural Gas permits (378,000 acres) in Southwestern Saskatchewan and interests varying from 44.5% to 100% in 6,820 acres of Petroleum and Natural Gas leases in the Peejay-Nancy Area of Northeastern British Columbia. Early in 1964 the Company also acquired an undivided 1/6th interest in approximately 6,000,000 acres of Petroleum and Natural Gas rights in New South Wales, Australia. This acreage lies approximately 120 miles southeast of the Moonie Oil Field and approximately 100 miles southeast of the more recently discovered Alton Oil Field which appears to be Australia's second commercial oil discovery. At September 30, 1964 Scurry-Rainbow held varying working and royalty interests in 11,569,211 acres of Mineral and Petroleum and Natural Gas rights.

During the year the Company participated in a number of important oil discoveries in Saskatchewan and Northeastern British Columbia, the most significant of which was the prolific Nancy pool of Northeastern British Columbia. Scurry-Rainbow's share of production from this pool is currently running at 600 barrels per day with development drilling still continuing. In the Cutbank River Area of Northwestern Alberta, two major gas discoveries by other companies are of great importance to Scurry-Rainbow due to its extensive acreage holdings in this area (see map page 8). The Company's exploration and development program

added 16.4 net working interest oil wells to its production capacity during the year. At September 30, 1964 Scurry-Rainbow held varying working and royalty interests in 890 oil wells and 74 gas wells. Since the fiscal year-end, a further 4.1 net working interest oil wells and 1.5 net working interest gas wells have been completed.

The Province of Saskatchewan is rapidly assuming the role of one of the free world's principal producers of potash, an essential ingredient in many fertilizers and necessary for prolific crop production where land lacks natural fertilizer or has been depleted through many years of cultivation. Over the past number of years, many millions of dollars have been spent in this province on exploration, testing and development of potash deposits. At the present time, two major potash producers are in operation, one is slated for immediate commencement of operations, two shafts are currently sinking to be in production before 1969 and several more companies are contemplating the commencement of development operations. Scurry-Rainbow owns over 400,000 acres of mineral rights within the known potash belt and Management is confident that these mineral rights will provide considerable potash revenue to the Company in the future. Since the fiscal year-end, Scurry-Rainbow has acquired from the Province of Saskatchewan two potash exploration permits comprising approximately 200,000 acres and plans an exploration program on these permits during the coming year.

On January 4, 1965 the Company received a ruling from the Internal Revenue Service of the U.S. Treasury Department confirming the exemption of Scurry-Rainbow stock from the 15% Interest Equalization Tax. This exemption places Scurry-Rainbow in a preferred position from the standpoint of American and Canadian investors who may wish to participate in the Western Canadian Oil Industry, since neither vendors nor purchasers of Company stock come within the application of this tax.

During the year Management has investigated and considered a number of proposals for major acquisitions and possible mergers. Although none of these proposals were consummated, it is Management's intention to investigate thoroughly all submissions made to the Company in this regard. Your Management believes that it is necessary to grow and expand in order to remain competitive. For this reason, Scurry-Rainbow intends to continue its policy of maintaining a strong cash position and to utilize available banking accommodations to enable the Company to make those acquisitions which, in the opinion of Management, will provide for greater diversification and for the continued growth of the Company.

Your directors express sincere appreciation to the shareholders for their continued interest in the affairs of the Company and to the employees for their support and co-operation which made possible the progress of the Company in the past year.

Frank E. Taplin
Chairman of the Board

E. George Mesch
President

Calgary, Alberta, Canada
January 22, 1965

FINANCIAL REVIEW

The financial results for 1964 have surpassed the previous records of the Company in net sales, gross revenue, cash flow and net profit. During 1964 net sales of oil and gas increased 16.1% to $4,463,053, gross revenue increased 25.7% to $5,019,537, cash flow from operations increased 22.7% to $2,796,820, equivalent to $1.41 per share (1963—$1.19 per share), and net profit after all charges increased 13.3% to $1,178,631, equivalent to 60¢ per share (1963—54¢ per share), as illustrated by the accompanying comparative summary of the year's operations.

Funds remaining at September 30, 1964 amounted to $2,292,960 (1963—$3,430,607) and after provision for repayment of long term debt of $1,515,000 (1963—$2,597,778) due within one year, the working capital of the Company was $777,960 (1963—$832,829).

	1964	1963
Net sales of oil and gas	$4,463,053	$3,845,432
Other income	556,484	147,085
Gross revenue	5,019,537	3,992,517
Operating and other expenses	1,591,980	1,276,635
Interest on long term debt	630,737	436,409
Cash flow from operations	2,796,820	2,279,473
Depletion, depreciation and other charges	1,618,189	1,239,498
Net profit after all charges	$1,178,631	$1,039,975

EXPLORATION AND DEVELOPMENT

Scurry-Rainbow has realized a very high success ratio in the drilling of exploratory and development wells on Company acreage during the fiscal year 1964. A total of 115 wells were drilled on Company acreage, the results of which are summarized as follows:

	Oil	Gas	Dry	Total
British Columbia	14	3	2	19
Alberta	12	3	18	33
Saskatchewan	27	—	36	63
TOTAL	53	6	56	115

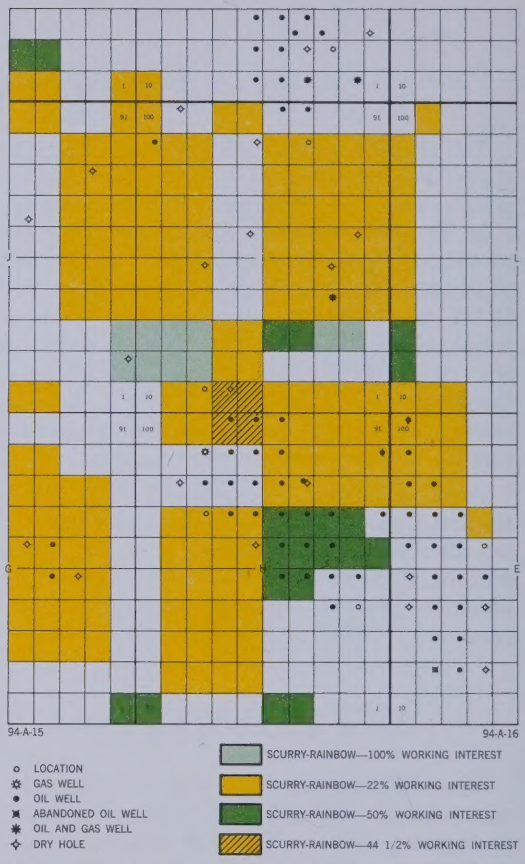
Scurry-Rainbow paid its proportionate share of the drilling costs of 62 of these wells and the remainder were drilled under farmout agreements or on royalty acreage at no cost to the Company. Of the 62 wells in which Scurry-Rainbow paid its proportionate share of drilling costs, 40 were completed and 22 were abandoned; whereas of the 53 wells drilled by others only 19 were completed and 34 were abandoned.

In addition to the direct participation in the drilling of 115 wells, the Company participated indirectly in a further 42 wells through farmout options and dry hole contributions. All of these wells were direct offsets to Company acreage and resulted in 4 oil discoveries and 38 abandonments. For the past several years, farmouts, options, and dry hole contributions have been an important phase of the Company's exploration policy, and it is Management's intention to continue this policy since it minimizes the risk normally incurred in extensive exploration policies.

BRITISH COLUMBIA

Scurry-Rainbow's drilling activity in the Province of British Columbia was concentrated in the Peejay and Boundary Lake Areas. A total of 16 wells were drilled in which the Company held working interests varying from 5% to 50%. Fourteen of these wells were completed and 2 were abandoned.

Scurry-Rainbow's most important drilling activity in Northeast British Columbia was carried out in the Peejay-Nancy Area approximately 45 miles north of Fort St. John. In February of 1964, Scurry-Rainbow participated in the d-85-H Halfway sand oil discovery. Since that time development has continued and at September 30, 1964, a total of 9 oil wells were completed in



which Scurry-Rainbow held varying working interests as follows: a 50% working interest in 5 wells, a 44.5% working interest in 1 well and a 22% working interest in 3 wells. All of these wells are producing from the prolific Halfway formation with production allowables ranging from 75 to 190 barrels per day. The Company's share of production from these wells and additional wells completed since September 30, 1964 will exceed 600 barrels per day. Following the d-85-H discovery, Scurry-Rainbow joined with other companies in the acquisition of further acreage in this area. A total of 5,420 acres were acquired with partners (1,898 net acres to Scurry-Rainbow) and 1,400 acres were acquired 100% by Scurry-Rainbow for an aggregate cost to the Company of $611,000. Total acreage holdings in this area consist of interests ranging from 22% to 100% working interest in over 63,353 gross acres. Scurry-Rainbow, together with its partners, plans an extensive exploration and development program on its large acreage spread in this area. The map on page 6 shows the Company's acreage holdings immediately surrounding the Peejay-Nancy development.

In the Boundary Lake Area, Scurry-Rainbow participated in the drilling of 6 wells resulting in 5 oil completions and 1 dry hole. The Company now holds a 5% working interest in 139 oil wells and 4 gas wells and a 9.5% working interest in 3 oil wells in this field. Total acreage holdings in this area consist of a 5% working interest in over 158,000 acres, a 9.5% working interest in 1,939 acres and a 100% working interest in 500 acres. During the year the Boundary Lake Field was unitized and a scheme of pressure maintenance was commenced. From the results obtained from pilot projects, this pressure maintenance scheme will greatly increase both daily production and ultimate recovery from this field, which will be of direct benefit to Scurry-Rainbow Oil Limited.

At September 30, 1964 Scurry-Rainbow held varying interests in 164 oil wells and 36 gas wells in the Province of British Columbia.

SASKATCHEWAN

Scurry-Rainbow's exploratory and development activity in Saskatchewan reached a new high in 1964. A total of 63 wells were drilled on Company acreage resulting in 27 completed oil wells and 36 abandonments. The Company paid its proportionate share of the costs of 29 of these wells which resulted in 18 completed oil wells. The remaining 34 wells were drilled at no cost to Scurry-Rainbow under farmout agreements or on royalty acreage. The Company participated indirectly in the drilling of a further 36 wells through drilling option agreements and dry hole contributions. In addition to its drilling and farmout activity in this province, the Company acquired a 100% working interest in over 378,000 acres of Petroleum and Natural Gas rights in Southwest Saskatchewan. Gross Company holdings in Saskatchewan now exceed 2,828,000 acres of which 1,653,000 acres include all mines and minerals.

WORKMAN

During the year the Company completed 5 more wells in the Workman Area. Three of these wells were completed as Midale Beds producers and the other 2 as Frobisher Beds producers. Scurry-Rainbow now holds varying interests in 34 wells in this field, 22 of which are Company operated. Negotiations are currently under way to unitize this field and institute pressure maintenance. Preliminary studies indicate that such a plan will add considerably to the daily production and ultimate recovery from this field.

ARCOLA

During the year three Frobisher Beds oil discoveries were made by other companies in the Arcola Area under farmout agreements from Scurry-Rainbow. The map opposite shows two of these discoveries plus the Company's acreage holdings in the area. Development drilling on all three of these discoveries is continuing.

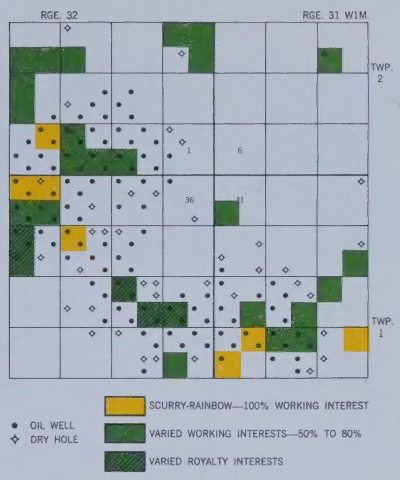
MIDALE

In the Midale Field Scurry-Rainbow completed 3 more wholly owned wells and participated as a 25% working interest owner in another completion. The most significant well in this field for Scurry-Rainbow was the 9-1 well indicated on the Midale map. Since the year-end, the Company has completed another well in this area, the 1-3 well also shown on the map. Scurry-Rainbow plans an extensive development program on its remaining acreage holdings in this area during the coming year.

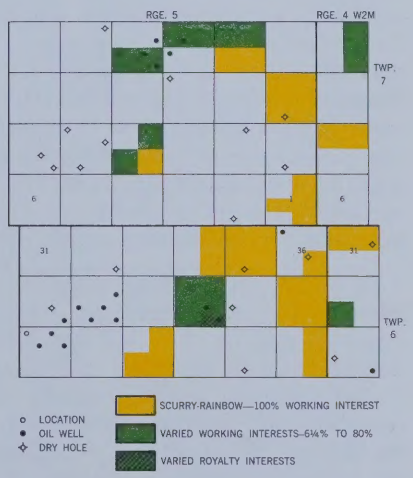
During the past eighteen months, there has been a general renewal of industry interest in the Province of Saskatchewan. The main factors which created this renewal of interest have been the unrestricted production allowables with the resulting quick well payouts, lower exploratory costs by reason of settled areas with no accessibility problems and the relatively shallow depths at which the oil is being discovered. In addition to these factors, a recent easing of government regulations dealing with lease selections and a reduction of royalty rates for deep discoveries have had a very significant effect in drawing exploratory programs back to Saskatchewan. Scurry-Rainbow, with its extensive acreage spread in Saskatchewan, is in an excellent position to gain the maximum benefit from this renewal of industry interest.

At September 30, 1964 Scurry-Rainbow held varying interests in 427 oil wells in the Province of Saskatchewan.

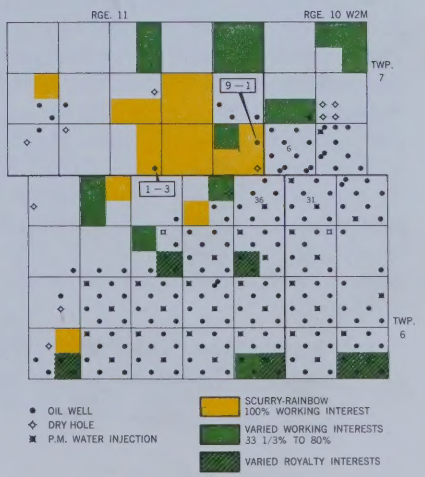
WORKMAN AREA



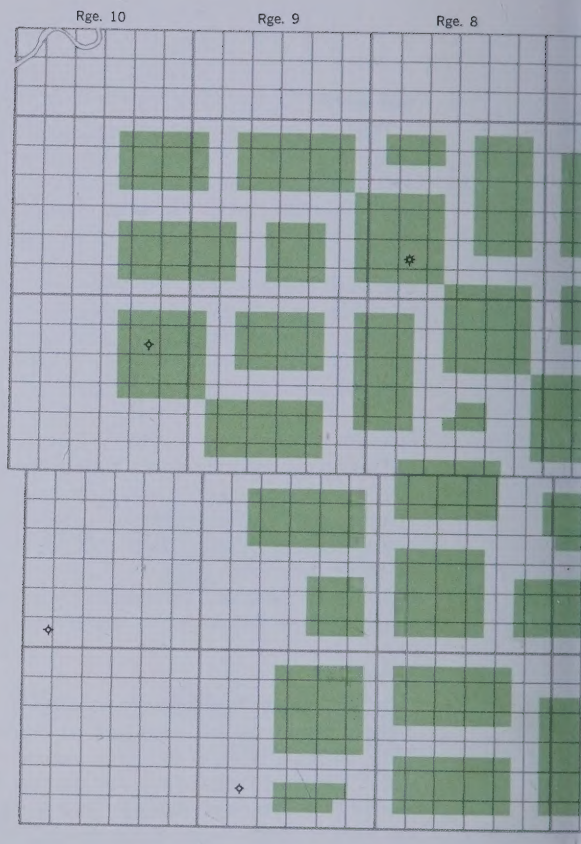
ARCOLA AREA



MIDALE AREA



Map of the WAPITI SMOKY and CUTBANK RIVER AREAS of ALBERTA

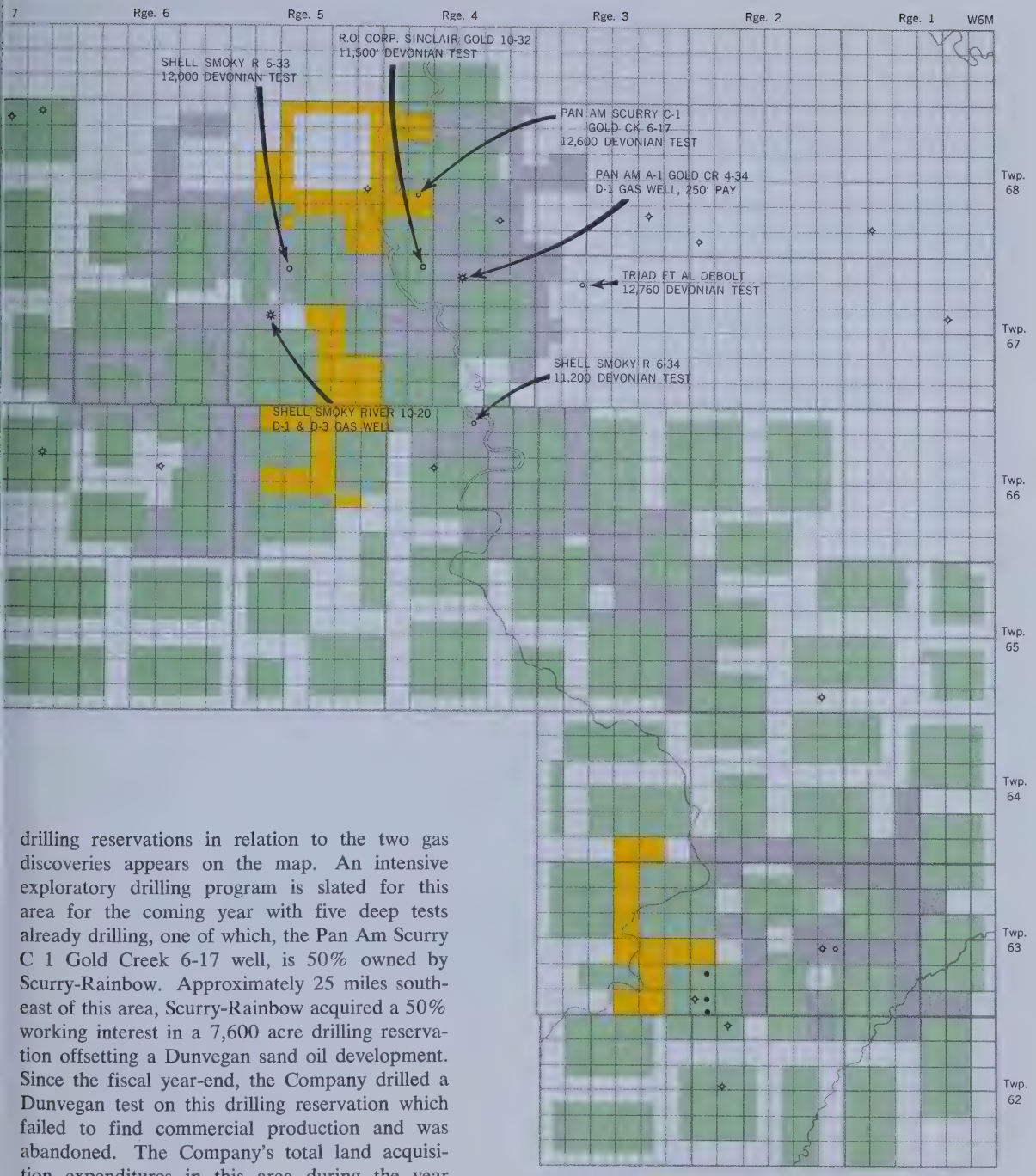


ALBERTA

Thirty-three wells were drilled in the Province of Alberta in which the Company held varying interests. Twelve of these wells were completed as oil wells, 3 as gas wells and 18 were abandoned. Scurry-Rainbow paid its proportionate share of the drilling costs of 17 of these wells while the remainder were drilled at no cost to the Company under farmout agreements or on royalty acreage. The Company participated indirectly in the drilling of an additional 6 wells through drilling option agreements and dry hole contributions. All 6 of these wells were unsuccessful and were abandoned.

In Southwestern Alberta the Company participated in a major deep gas discovery. The Imp et al Bellevue 6-31 well was drilled under farmout from the Company, to a total depth of 13,500 feet. Two major gas bearing zones were discovered, the Mississippian at 9,968 feet and the Devonian at 12,050 feet. Production tests of the Devonian flowed gas at rates of over 20 million cubic feet per day. Tests of the Mississippian, while not completed as yet, also indicated a commercial gas reservoir. The well is currently shut in pending further exploration in the area. The Company holds a 5.6% working interest in this well and in 28,900 acres of Petroleum and Natural Gas rights and 18,320 acres of Natural Gas rights surrounding the well. Further working interests varying from 10% to 100% are held by the Company in another 38,700 acres in the same general area. One deep Devonian gas well, in which the Company holds a 35% working interest, is presently on production on this acreage.

The Wapiti, Smoky and Cutbank River Areas of Northwestern Alberta continue to be of great importance to Scurry-Rainbow. Two huge gas discoveries were made by other companies in this area during 1964. The Pan Am Gold Creek 4-34 well discovered 250 feet of gas pay in the Devonian D-1 formation at a depth of 10,900 feet, while the Shell Smoky River 10-20 well discovered 214 feet of gas pay in the same formation at a depth of 11,320 feet in addition to an indicated commercial gas discovery in the Devonian D-3 reef. The location of these 2 wells and the Company's acreage in these areas appear on the accompanying map. Following the completion of these two wells, Scurry-Rainbow purchased an 11,800 acre drilling reservation located immediately north of the discoveries. Later in the year, the Company pooled its drilling reservation with one held by Pan American Petroleum Corporation and now holds a 50% working interest in the two drilling reservations comprising a total of 23,000 gross acres. The location of the two



drilling reservations in relation to the two gas discoveries appears on the map. An intensive exploratory drilling program is slated for this area for the coming year with five deep tests already drilling, one of which, the Pan Am Scurry C 1 Gold Creek 6-17 well, is 50% owned by Scurry-Rainbow. Approximately 25 miles southeast of this area, Scurry-Rainbow acquired a 50% working interest in a 7,600 acre drilling reservation offsetting a Dunvegan sand oil development. Since the fiscal year-end, the Company drilled a Dunvegan test on this drilling reservation which failed to find commercial production and was abandoned. The Company's total land acquisition expenditures in this area during the year amounted to $817,000. It will be noted from the map that total industry expenditures for land acquisitions in this area have already exceeded $8,000,000 for the purchase of drilling reservations. A further $2,000,000 has been spent by

the industry in the acquisition of government leases.

Approximately twelve miles northeast of the Pan Am Scurry C 1 Gold Creek well, Scurry-Rainbow farmed out a 14,000 acre lease block for another deep test. This well is being drilled as a Beaverhill Lake test to approximately 11,300 feet at no cost to Scurry-Rainbow. Upon completion of the well, the Company will own a 33⅓% interest in the well and the 14,000 acre lease block.

At September 30, 1964 Scurry-Rainbow held varying interests in 258 oil wells and 38 gas wells in the Province of Alberta.

SCURRY-RAINBOW OIL LIMITED

OIL AND GAS WELLS

SEPTEMBER 30, 1964

ROYALTY

	OIL WELLS			GAS WELLS		
	Sept. 30/64		Sept. 30/63	Sept. 30/64		Sept. 30/63
	Gross Wells	Net Wells	Net Wells	Gross Wells	Net Wells	Net Wells
Alberta	127	25.54	24.64	15	1.90	2.92
British Columbia	—	—	—	6	.52	.52
Saskatchewan	354	157.27	148.54	—	—	—
Manitoba	27	.93	.93	—	—	—
TOTAL:	508	183.74	174.11	21	2.42	3.44

WORKING INTEREST

	OIL WELLS			GAS WELLS		
	Sept. 30/64		Sept. 30/63	Sept. 30/64		Sept. 30/63
	Gross Wells	Net Wells	Net Wells	Gross Wells	Net Wells	Net Wells
Alberta	131	50.98	50.87	23	6.32	6.57
British Columbia	164	12.60	8.75	30	3.86	3.73
Saskatchewan	73	52.36	40.90	—	—	—
Manitoba	14	8.37	8.37	—	—	—
TOTAL:	382	124.31	108.89	53	10.18	10.30

NOTE: 1. A net royalty well represents the right to the equivalent of one-eighth (⅛) of the production from one well, without deduction for development or operating expenses.
2. A net working interest well represents the full working interest ownership in one well or the ownership of fractional working interest in several wells aggregating the equivalent of one well.
3. Dually completed wells are counted as two wells.

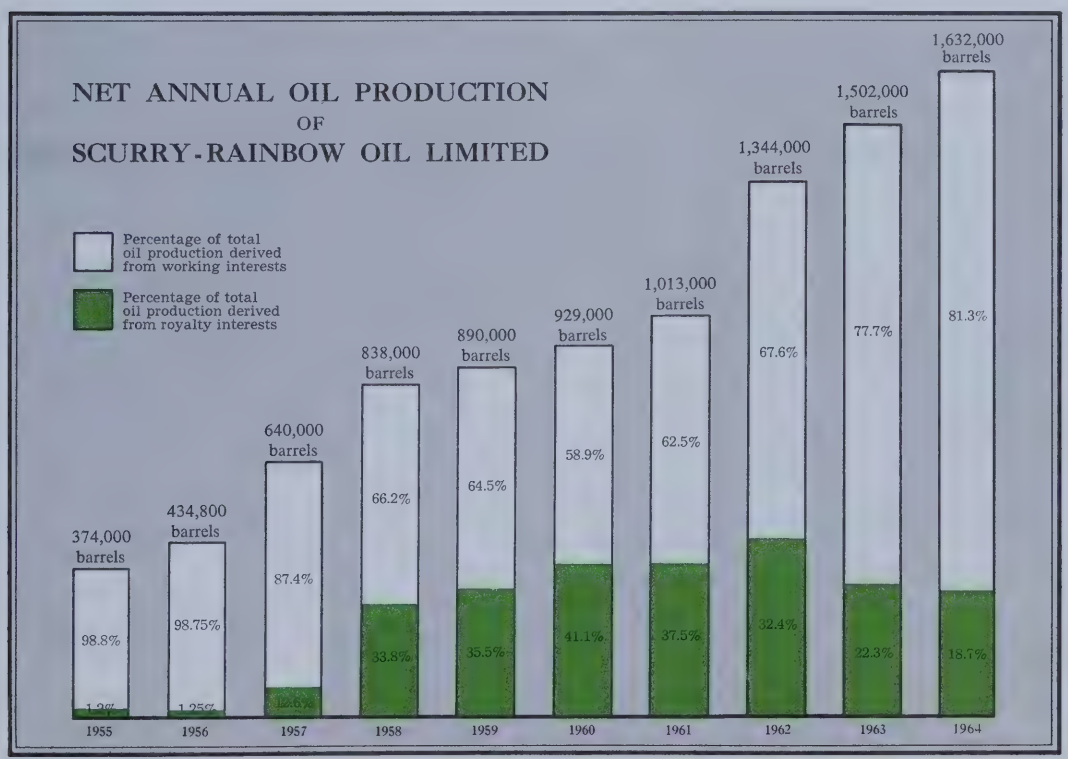
PRODUCTION

During 1964, Scurry-Rainbow surpassed its previous records in the production of crude oil and natural gas. Net production of crude oil totalled 1,632,000 barrels (4,460 barrels per day), an increase of 8.7% over 1,502,000 barrels (4,115 barrels per day) in 1963. Net production of natural gas was 2,226,000 mcf (6,080 mcf per day), an increase of 111.8% over 1,051,000 mcf (2,880 mcf per day) in 1963. At September 30, 1964, the Company was deriving production from 964 oil and gas wells in the four western provinces, particulars of which are summarized on page 10 of this report.

The Company's royalty interests continue to contribute a substantial portion of overall Company income, as indicated by the Production Chart illustrated below. Royalty income for the year was $756,838 and working interest income amounted to $3,706,215, for a total oil and gas revenue in 1964 of $4,463,053 of which $3,982,823 was derived from the sale of crude oil and $480,230 was derived from the sale of natural gas and by-products. Scurry-Rainbow's producing oil and gas properties are all located in Western Canada, the income breakdown between the provinces being as follows: Alberta 41.6%, British Columbia 8.4%, Saskatchewan 48.2% and Manitoba 1.8%.

As a result of new discoveries primarily in the Peejay-Nancy Area of Northeastern British Columbia, the Company's net production of crude oil is presently averaging over 5,000 barrels per day. The continuous expansion of both domestic and export markets for natural gas is the major reason for the significant growth of the Company's natural gas sales which now represent over 10% of the total production revenue.

The Canadian oil and gas industry experienced an overall growth of 8% over 1963. The Province of Saskatchewan recorded the greatest individual increase, with a gain of 12.7% and present indications are that it will again be the growth leader in 1965. Scurry-Rainbow, with its extensive land holdings in this province, is in an excellent position to gain direct benefits from this expected growth.



SCURRY-RAINBOW OIL LIMITED

and Subsidiary Companies

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 1964

(with comparative figures for 1963)
(Canadian dollars)

	1964	1963
Funds were derived from:		
Operations—*Note 1*	$ 2,796,820	$ 2,279,473
Long term loans	13,500,000	7,496,015
Disposal of Company stock —		
Shares held by a subsidiary	991,312	107,800
Shares issued from treasury	1,600	408,874
Other sources	88,373	74,277
	17,378,105	10,366,439
Add—Funds at beginning of year	3,430,607	2,881,111
	20,808,712	13,247,550
Funds were utilized for:		
Acquisition of property and equipment	3,048,402	713,266
Exploration and development	1,750,763	1,606,945
Acquisition of shares in—		
Subsidiary companies	284,419	4,955,837
Other companies	897,360	—
Redemption of long term debt	12,492,717	2,256,903
Other purposes	42,091	283,992
	18,515,752	9,816,943
Funds remaining at end of year—*Note 2*	$ 2,292,960	$ 3,430,607
Note 1:		
Sales of oil and gas	$ 3,706,215	$ 3,030,936
Royalty income	756,838	814,496
Other sources of income	556,484	147,085
	5,019,537	3,992,517
Less—		
Production expenses	815,233	611,198
Administrative and general expenses	776,747	665,437
Interest on long term debt	630,737	436,409
	2,222,717	1,713,044
Cash flow from operations	$ 2,796,820	$ 2,279,473
Note 2:		
Current assets	$ 3,789,586	$ 4,168,858
Less—Current liabilities	3,011,626	3,336,029
Working capital	777,960	832,829
Add—Long term debt due within one year	1,515,000	2,597,778
Funds remaining at end of year	$ 2,292,960	$ 3,430,607

SCURRY-RAINBOW OIL LIMITED

and Subsidiary Companies

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS

FOR THE YEAR ENDED SEPTEMBER 30, 1964

(with comparative figures for 1963)
(Canadian dollars)

	1964	1963
Operating revenue:		
Sales, less royalties	$3,706,215	$3,030,936
Royalty income	756,838	814,496
Sundry	15,586	32,659
	4,478,639	3,878,091
Expenses:		
Production	815,233	611,198
Dry hole costs	327,663	241,044
Litigation costs	37,643	79,744
Administrative	590,266	513,630
Other	148,838	65,544
	1,919,643	1,511,160
	2,558,996	2,366,931
Provisions for:		
Depletion	651,942	536,667
Depreciation	404,489	314,323
	1,056,431	850,990
	1,502,565	1,515,941
Other credits:		
Profit on sale of investments	22,317	(18,207)
Profit on disposal of capital assets	134,003	—
Investment income	259,422	58,333
Claims awarded for production income	125,156	74,300
	2,043,463	1,630,367
Other charges:		
Interest on long term debt	630,737	436,409
Properties abandoned	121,389	128,117
Deferred charges written off	57,185	2,838
	809,311	567,364
	1,234,152	1,063,003
Minority shareholders' interest in profits and losses of subsidiaries	55,521	23,028
Net profit for the year	1,178,631	1,039,975
Earned surplus at beginning of year	3,437,670	2,495,913
	4,616,301	3,535,888
Taxes on prior years' income	—	98,218
Earned surplus at end of year	$4,616,301	$3,437,670

SCURRY-RAINBOW OIL LIMITE

CONSOLIDATED BALANCE SH

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ASSETS

	1964	1963
CURRENT ASSETS:		
Cash	$ 2,758,802	$ 3,188,508
Government of Canada bonds, at cost	24,618	256,725
Accounts receivable	798,915	504,535
Inventories—		
Crude oil, at market	30,455	27,500
Materials and supplies, at cost	83,050	103,007
Prepaid expenses	93,746	88,583
	3,789,586	4,168,858
OTHER ASSETS:		
Investment in shares, at cost —		
Subsidiary company not consolidated	10,000	10,000
Minerals Ltd., 50% owned	2,211,830	2,211,830
Other companies	1,216,239	228,400
Reservation and drilling deposits	42,667	103,786
Advances and mineral taxes recoverable	34,576	43,224
	3,515,312	2,597,240
CAPITAL ASSETS, at cost: (Note 1)		
Petroleum and natural gas and other mineral interests—		
Producing royalty interests	888,338	827,068
Producing wells and related lease costs	11,782,304	10,346,646
Less—Accumulated depletion	(5,359,252)	(4,727,348)
Capped and suspended wells and related lease costs	856,345	875,739
Non-producing properties	18,608,878	16,575,120
Mining claims, non-producing	414,092	422,749
Production equipment	3,555,368	2,791,304
Other capital assets	1,791,435	1,673,471
Less—Accumulated depreciation	(1,881,634)	(1,590,107)
	30,655,874	27,194,642
DEFERRED CHARGES:		
Organization and share issue expense	230,797	235,596
Other charges	134,086	154,465
	364,883	390,061
	$38,325,655	$34,350,801

AND SUBSIDIARY COMPANIES

T AT SEPTEMBER 30, 1964

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LIABILITIES

	1964	1963
CURRENT LIABILITIES:		
Accounts payable	$ 1,484,228	$ 724,486
Interest	12,398	13,765
Long term debt due within one year	1,515,000	2,597,778
	3,011,626	3,336,029
LONG TERM DEBT:		
Canadian bank loans at current rate of interest (secured), repayable at the rate of $125,000 per month	12,625,000	7,242,600
5½% United States bank loan (secured) ($4,000,000 U.S.)	—	4,255,117
5% Mortgage due January 1, 1970, repayable at the rate of $3,750 per quarter	82,500	97,500
5½% Promissory notes	—	105,000
	12,707,500	11,700,217
Less—Amounts due within one year	1,515,000	2,597,778
	11,192,500	9,102,439
MINORITY SHAREHOLDERS' INTERESTS in subsidiary companies	1,910,009	1,872,356
SHAREHOLDERS' OWNERSHIP:		
Share capital—(Note 2)		
Authorized—7,500,000 shares of a par value of $3.50 each		
Issued—1,977,183 shares	6,920,140	6,919,440
Contributed surplus—(Note 2)	10,675,079	10,674,700
Earned surplus, per statement attached	4,616,301	3,437,670
	22,211,520	21,031,810
Less—67,782 shares held by a subsidiary, at cost	—	991,833
	22,211,520	20,039,977
LITIGATION (Note 3)		
	$38,325,655	$34,350,801

APPROVED ON BEHALF OF THE BOARD:
J. F. LANGSTON, Director
L. C. MORRISROE, Director

The Auditors' Report is attached to this Balance Sheet

SCURRY-RAINBOW OIL LIMITED

and Subsidiary Companies

NOTES TO FINANCIAL STATEMENTS

1. CAPITAL ASSETS:

The companies follow the policy of capitalizing as property costs geological and geophysical expenses, lease rentals and other carrying charges on non-producing properties.

2. SHARE CAPITAL, SHARE OPTIONS AND CONTRIBUTED SURPLUS:

In March 1964, the authorized share capital of the Company was increased from 3,600,000 shares of a par value of $3.50 each to 7,500,000 shares of the same par value. Changes in issued share capital and contributed surplus during the year ended September 30, 1964 are summarized below:

	Number of shares	Share capital (par value)	Contributed surplus
Balance at September 30, 1963	1,976,983	$6,919,440	$10,674,700
Issued for cash under options to employees	200	700	900
Loss on disposal of Company shares held by a subsidiary			(521)
Balance at September 30, 1964	1,977,183	$6,920,140	$10,675,079

During the fiscal year options on 200 shares were exercised and at September 30, 1964 options on 95,109 shares were outstanding in respect of stock options granted in prior years to certain officers and employees for the purchase of the Company's capital at prices of $8.00, $11.75 and $15.05 per share.

3. LITIGATION:

Certain litigation involving the effectiveness of individual producing and non-producing property titles and royalty interests is in progress in the Province of Saskatchewan. Management, after consultation with counsel, does not anticipate that such litigation will result in a material reduction of the companies' property interests or in the royalty income therefrom.

4. STATUTORY INFORMATION:

Administrative expenses include directors' fees of $9,375 in 1964 and $6,825 in 1963.

AUDITORS' REPORT

To the Shareholders of
SCURRY-RAINBOW OIL LIMITED:

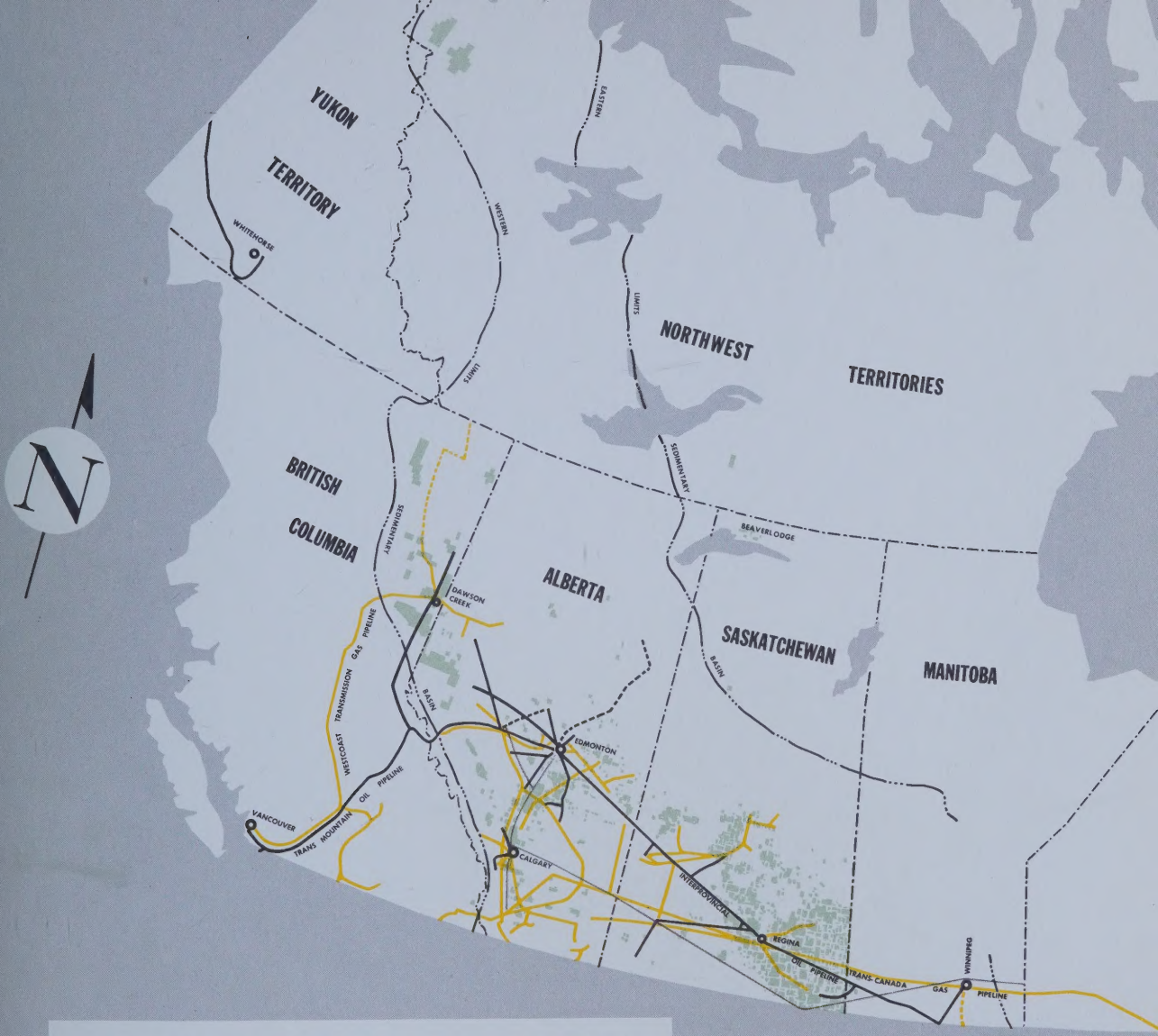
We have examined the consolidated balance sheet of Scurry-Rainbow Oil Limited and subsidiary companies as at September 30, 1964 and the consolidated statement of profit and loss and earned surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statement of profit and loss and earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the combined companies as at September 30, 1964 and the consolidated results of operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also examined the consolidated statement of source and use of funds for the year ended September 30, 1964, which is presented as supplementary information and, in our opinion, the statement presents fairly the information shown therein.

Calgary, Alberta
December 17, 1964

PRICE WATERHOUSE & CO.
Chartered Accountants



SCURRY – RAINBOW OIL LIMITED

SUMMARY OF ACREAGE

September 30, 1964

	GROSS	NET
WORKING INTEREST ACREAGE		
Reservations and Permits	938,000	883,900
Petroleum and Natural Gas Leases	1,869,860	510,676
Options on P & NG Leases	4,096	4,059
MINERAL ACREAGE		
Mineral Titles and Mineral Leases	1,674,338	1,275,694
Oil and Gas Titles	141,432	67,595
ROYALTY ACREAGE		
Gross Royalty in Freehold land	316,539	59,643
Gross Overriding Royalty on P & NG Leases	236,722	60,577
Gross Overriding Royalty on P & NG Reservations and Permits	388,224	69,931
FOREIGN ACREAGE		
Petroleum Exploration Licenses—Australia	6,000,000	1,000,000

LEGEND

- GAS PIPELINE
- PROPOSED GAS LINE
- OIL PIPELINE
- PROPOSED OIL LINE
- PROPOSED PRODUCTS LINE
- AREAS IN WHICH SCURRY-RAINBOW HAS AN INTEREST

Eleventh Annual Report

for the year ended September 30th 1964

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